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SECRET**The Director of Central Intelligence**

Washington, D.C. 20505

National Intelligence Council**NIC 05596-85
8 November 1985****MEMORANDUM FOR: Director of Central Intelligence
Deputy Director of Central Intelligence****FROM:****Acting National Intelligence Officer for Economics****SUBJECT: Press Reports on NSC "Challenge" to the Economic
Policy Council**

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1. The New York Times and Wall Street Journal today ran stories about McFarlane's proposal to establish a committee composed of the Defense Department, CIA, State, and NSC to assess the strategic implications of economic policy decisions. The New York Times, referring to the committee incorrectly as a Cabinet-level group, says that the committee could "operate as a power rival to the EPC." The Wall Street Journal notes correctly that State Department has demurred from joining the group. You will recall that you received a memorandum from McFarlane on this issue asking for a CIA representative. I sent you a draft response supporting McFarlane's recommendation and suggesting that CIA be represented on the group by the NIO for Economics.

2. I met with McFarlane's Senior Director for International Economic Affairs, Stephen Danzansky, this morning to discuss his plans for this new group. Danzansky explained that he hoped the group would meet weekly to discuss EPC agenda items for the following week. The group would also prepare a "National Security Impact Statement" on EPC decisions which would accompany Council proposals to the President.

3. Secretary Baker obviously opposes the formation of this group, and his people likely briefed the New York Times on McFarlane's memo. Should Baker appeal the creation of this group to the President, presenting it (correctly) as an unnecessary bureaucratic layer, it would give us a chance to point up the shortcomings of the EPC process, including:

-- the apparently deliberate failure of the EPC to get position papers to NSC, DOD, and CIA on a timely basis; and

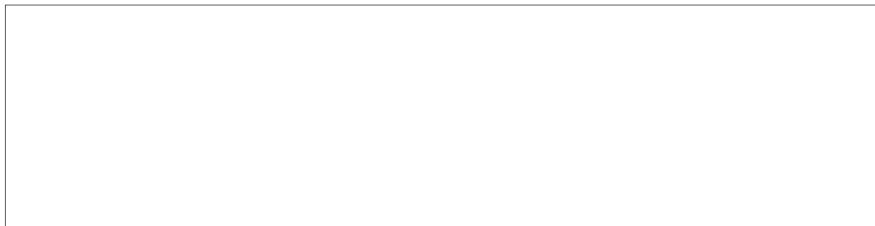
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SUBJECT: Press Reports on NSC "Challenge to the EPC

-- the exclusion from the EPC agenda of many important international issues such as Soviet trade and finance, LDC debt, etc., in favor of minor trade issues such as Canadian lumber that are best handled at the sub-cabinet level.



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Attachments:

- A. New York Times Article, 8 November 1985
- B. Wall Street Journal Item, 8 November 1985
- C. EPC Agenda Listing
- D. Memo from McFarlane, dated 2 November 1985

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SUBJECT: Press Reports on NSC "Challenge" to the EPC

Acting NIO/Econ [redacted]

8 November 1985 NIC 05596-85

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THE NEW YORK TIMES
Friday, November 8, 1985

A Trade Strategy Panel Is Proposed

By CLYDE H. FARNSWORTH

Special to The New York Times

WASHINGTON, Nov. 7 — A proposal to establish a Cabinet-level committee to assess the strategic implications of trade policy — such as the impact on the American-Japanese defense alliance of possible American curbs on semiconductor imports — has been made by President Reagan's national security adviser, Robert C. McFarlane.

The proposal, contained in a recent memo to Secretary of State George P. Shultz, is expected to meet significant opposition. Those in the Government who favor free trade, most of whom are in the Commerce Department and the Office of the Trade Representative, fear that such a panel would try to subordinate trade issues to national-security and foreign-policy considerations.

However, with the proposal not yet on President Reagan's desk, opponents were unwilling to comment on the record.

The new committee would be composed of the Defense Department, the Central Intelligence Agency, the National Security Council and the State Department. The panel could operate as a rival power to the Economic Policy Council, on which sit the trade agencies. What its relationship would be to the policy council is unclear. Those in the latter body see the new panel as creating a high-level, collective voice for views that until now had been expressed by individual agencies or Cabinet officers, such as Defense Secretary Caspar W. Weinberger.

Asked about the memo, Karna Small, Mr. McFarlane's spokesman, said, "I've been instructed not to comment on this."

Although it was unclear what would bring the new committee into being, most analysts thought a Presidential decision would be required.

Trade policy is now managed by the Economic Policy Council under the chairmanship of Treasury Secre-

tary James A. Baker Jr. Others on the committee are the Commerce, Labor, Agriculture, and State Departments, the Office of the Trade Representative and the Office of Management and Budget.

Mr. Weinberger, Mr. McFarlane and the Director of Central Intelligence, William J. Casey, are invited to participate in the policy council, as needed, officials said.

Before a reorganization last April that created the policy council, however, they were part of the regular trade policy-making process as members of the Cabinet body that preceded the policy council.

That was the Senior Interagency Group on International Economic Policy, which was under the chairmanship of the Treasury Secretary. The paperwork for it was prepared by the National Security Council.

"This is a turf battle," said a Congressional source familiar with the memo. "The security agencies are still angry at being frozen out of the Economic Policy Council."

THE WALL STREET JOURNAL

Friday, November 8, 1985

MCFARLANE MOVES to increase his influence over trade policy. The National Security Council chief proposes a new inter-agency trade committee, including the NSC, to present a foreign-policy view on specific trade issues. But the State Department demurs, saying a change isn't needed.

THE WHITE HOUSE
WASHINGTON

November 7, 1985

MEMORANDUM FOR ALFRED H. KINGON
RICHARD G. DARMAN
JOSEPH R. WRIGHT
STEPHEN I. DANZANSKY

FROM: EUGENE J. McALLISTER *ZY*

SUBJECT: EPC Agenda

The following is the proposed EPC agenda for the next few weeks:

Week of November 4-8

Thursday, November 7

-- Economic Review

Action Forcing Event

Week of November 11-15

Wednesday, November 13

-- antitrust (Joint EPC/DPC)

1986 legislative initiative
State of the Union Address

Thursday, November 14

-- open

Week of November 18-22

Wednesday, November 20

-- antitrust

Thursday, November 21

-- new trade round objectives

GATT contracting parties
meet on in late November.

-- Canadian lumber

Congressional interest,
Canadian trade arrangement

Week of November 25

Tuesday, November 26

-- open

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Other Short-Term (Next 2-4 weeks) Potential Agenda Items

- o December 1 Section 301 Deadlines
 - EC Canned Fruit
 - Japan Leather and Leatherfootwear

- o Surcharge on Recording Tape

There are several proposals in Congress to place a surcharge on recording tape with proceeds going to recording industry.

- o Return of the Strike Force

- o Airport Landing Rights

OMB and DOT are engaged in negotiations intended to fairly and efficiently allocate airport landing rights. OMB and CEA favor a market auction, similar to Federal oil leases. DOT tentatively has supported a buy-sell option permitting airlines to transfer existing slots among themselves.

THE WHITE HOUSE

WASHINGTON

Executive Registry

85- 4179

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November 2, 1985

MEMORANDUM FOR THE HONORABLE WILLIAM J. CASEY
The Director of Central Intelligence

SUBJECT: National Security Assessment of Economic Policy Decisions: New Procedure (S)

With the recent highly visible activity in the trade and monetary areas, the President is more frequently called upon to make decisions relating to economic policy than in the past. Most of these decisions have major international and national security implications. (S)

Because of this, I have become increasingly concerned in the last few months that in the internal handling of international economic issues there is no mechanism to ensure that final recommendations that are sent forward to the President have been considered from an overall national security perspective. Often it is the case that it is not until a final recommendation is made that the national security implications can be fully assessed. In addition, I do not believe that CIA and Defense are adequately consulted on many economic policy matters. The President must be given the opportunity to weigh all the international political and military implications of each proposal on the best information available. (S)

I have decided, as a result, that it is necessary to put into place a more formal procedure for providing the President with fully considered national security advice on all international economic issues. What I propose is a requirement that all recommendations to the President on international economic matters, from the EPC or other sources, must be subject to a last stop national security review process overseen by the security agencies: NSC, CIA, State and Defense. (S)

This review process would be memorialized in a document called a National Security Impact Statement (NSIS) which would reflect the judgment of the above-mentioned agencies on the relationship of the proposed decision to the President's overall foreign policy objectives. This document would be prepared by representatives from the security agencies who would assess the national security implications of proposed actions. There is no intention in this proposal to create another bureaucratic layer. The purpose is to facilitate the decisionmaking process through a close

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coordination of our agencies to best serve the President in making economic decisions that could affect the national security. (S)

I have asked Stephen Danzansky to coordinate the new process on my behalf. Steve already has spoken to Willie Taft of Defense about establishing better coordination on economic policy matters, and with [redacted] at the Agency. As part of the NSIS process, I foresee that it will be necessary regularly to communicate with a small group from the security agencies whose sole purpose is to provide the assessments which would form the basis of the Impact Statement. In order to make the process as efficient as possible, I would like only one representative from each agency. I would request that you ask [redacted] or some other person, to regularly participate in meetings of this group as the CIA's representative. (S)

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Robert C. McFarlane
Assistant to the President
for National Security Affairs

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